

Securities and Exchange Commission  
Trading and Markets

MAR 04 2019

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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

**FACING PAGE**

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

**OMB APPROVAL**

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**SEC FILE NUMBER**

8-38158

REPORT FOR THE PERIOD BEGINNING 01/01/18 AND ENDING 12/31/18  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Institutional Securities Corporation

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

3500 Oak Lawn Ave., Suite 400

(No. and Street)

Dallas

Texas

75219

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Moss Adams LLP

(Name - if individual, state last, first, middle name)

8750 N. Central Expressway, Suite 300

Dallas

TX

75231

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

☒

Certified Public Accountant

☐

Public Accountant

☐

Accountant not resident in United States or any of its possessions.

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (06-02)

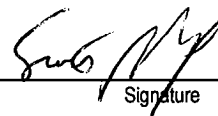
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## OATH OR AFFIRMATION

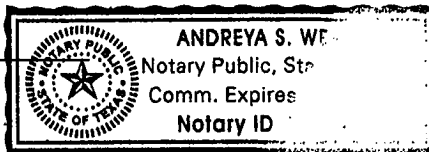
I, Scott Hayes, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Institutional Securities Corporation, as of December 31, 2018, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

  
 Signature

\_\_\_\_\_  
 President  
 Title

  
 Notary Public



This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Cash Flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Report of Independent Registered Public Accounting Firm on Management's Exemption Report.

\*\*For conditions of confidential treatment of certain portions of this filing, see Section 240.17a-5(e)(3).

## INSTITUTIONAL SECURITIES CORPORATION

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MOSSADAMS

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors  
Institutional Securities Corporation

### ***Opinion on the Financial Statements***

We have audited the accompanying statement of financial condition of Institutional Securities Corporation (the Company) as of December 31, 2018, the related statements of income, changes in shareholder's equity, and cash flows for the year then ended, the related notes (collectively referred to as the *financial statements*). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### ***Opinion on the Supplementary Information***

The supplementary information in Schedule I has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The information in Schedule I is the responsibility of the Company's management. Our audit procedures include determining whether the information in Schedules I reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in Schedule I. In forming our opinion on the information in Schedule I, we evaluated whether the information in Schedule I, including its form and content is presented in conformity with 17 C.F.R. §240.17a-5. In our opinion, the information in Schedule I is fairly stated in all material respects in relation to the financial statements as a whole.

*Moss Adams LLP*

Dallas, Texas  
February 25, 2019

We have served as the Company's auditor since 2016.

INSTITUTIONAL SECURITIES CORPORATION  
Statement of Financial Condition  
December 31, 2018

**ASSETS**

Cash and cash equivalents	\$ 553,117
Receivable from brokers-dealers and clearing organizations	355,404
Other receivables	42,419
Securities owned	54,111
Prepaid expenses and advances	<u>38,463</u>
	<u>\$ 1,043,514</u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Liabilities:

Accounts payable and accrued expenses	\$ 23,192
Commissions payable	295,189
Accounts payable clearing broker	52,093
Securities sold short	350
Income tax payable—related party	<u>24,707</u>
	<u>395,531</u>

Stockholder's equity:

Common stock, 10,000 shares authorized with \$.10 par value, 10,000 shares issued and outstanding	1,000
Additional paid in capital	286,709
Retained earnings	<u>360,274</u>
Total stockholder's equity	<u>647,983</u>
	<u>\$ 1,043,514</u>

The accompanying notes are an integral part of these financial statements.

INSTITUTIONAL SECURITIES CORPORATION  
Statement of Income  
For the Year Ended December 31, 2018

**Revenues**

Commissions	\$ 1,565,860
Insurance and Annuity products	2,618,014
12b1 Fees/Distribution Fees	1,689,714
Mutual Fund Commissions	416,691
Interest income	156,374
Other income	97,918
Realized gain on securities	<u>391,418</u>

Total Revenues	<u>6,935,989</u>
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**Expenses**

Commissions and clearance	6,014,033
Regulatory fees and expenses	67,394
Other expenses	<u>816,681</u>

Total Expenses	<u>6,898,108</u>
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Income before income taxes	37,881
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Federal income tax expense	<u>7,955</u>
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Net Income	<u><u>\$ 29,926</u></u>
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The accompanying notes are an integral part of these financial statements.

INSTITUTIONAL SECURITIES CORPORATION  
Statement of Changes in Stockholder's Equity  
For the Year Ended December 31, 2018

	<u>Shares</u>	<u>Common Stock</u>	<u>Additional Paid In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2017	10,000	\$ 1,000	\$ 286,709	\$ 330,348	\$ 618,057
Net income				29,926	29,926
Balance at December 31, 2018	<u>10,000</u>	<u>\$ 1,000</u>	<u>\$ 286,709</u>	<u>\$ 360,274</u>	<u>\$ 647,983</u>

The accompanying notes are an integral part of these financial statements.

**INSTITUTIONAL SECURITIES CORPORATION**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2018**

**Cash flows from operating activities**

Net income	\$ 29,926
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Change in current assets and liabilities:	
Decrease in receivable from broker-dealers and clearing organizations	229,502
Decrease in other receivables	31,984
Increase in securities owned	(51,804)
Increase in prepaid expenses and advances	3,286
Increase in accounts payable and accrued expenses	10,072
Decrease in commissions payable	(71,166)
Increase in accounts payable clearing broker	49,860
Increase in income tax payable—related party	<u>7,954</u>
Net cash provided by operating activities	<u>210,278</u>

**Cash flows from investing activities**

Securities Sold Short	<u>315</u>
Net cash provided (used) by investing activities	<u>315</u>

**Cash flows from financing activities**

Contributed Capital	<u>-0-</u>
Net cash provided (used) by financing activities	<u>-0-</u>
Net increase in cash and cash equivalents	239,929
Cash and cash equivalents at beginning of year	<u>313,188</u>
Cash and cash equivalents at end of year	<u>\$ 553,117</u>

**Supplemental Schedule of Cash Flow Information**

Cash paid during the year for:

Interest	<u>\$ -0-</u>
Income taxes	<u>\$ -0-</u>

The accompanying notes are an integral part of these financial statements.



## INSTITUTIONAL SECURITIES CORPORATION

### Notes to Financial Statements

December 31, 2018

#### Note 1 - Summary of Significant Accounting Policies

Institutional Securities Corporation (the "Company") is a broker-dealer in securities registered with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company operates under (SEC) Rule 15c3-3(k)(2)(ii), which provides that all funds and securities belonging to the Company's customers would be handled by a clearing broker-dealer. The Company is a Texas corporation that is a wholly-owned subsidiary of ISC Group, Inc. ("Parent"). Substantially all the Company's business is conducted with customers in Texas.

Compensated absences have not been accrued because the amount cannot be reasonably estimated.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due if applicable. The provision for federal income taxes differs from the expected amount using statutory rates because certain expenses included in the determination of net income are non-deductible for tax reporting purposes.

Security transactions (and related commission revenue and expense) are recorded on a trade date basis.

Securities are carried at fair value. The increase or decrease in net unrealized appreciation or depreciation of securities is credited or charged to operations.

For purposes of reporting cash flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days that are not held for sale in the ordinary course of business.

Receivables from broker-dealers and clearing organizations are generally collected in full in the month following their accrual. As such, management has not recorded an allowance for doubtful accounts on these receivables. The Company advances funds to its registered representatives as determined necessary by management. The advances are generally recouped upon the following commission payment cycle. Management records an allowance for bad debts based on a collectability review of specific accounts. Any receivables deemed uncollectible are written off against the allowance. The Company had receivables related to contracts with customers of \$584,906 at December 31, 2017.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Note 2 - Net Capital Requirements

Pursuant to the net capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934, the Company is required to maintain a minimum net capital, as defined under such provisions. Net capital and the related net capital ratio may fluctuate on a daily basis. At December 31, 2018, the Company had net capital of approximately \$544,393 and net capital requirements of \$100,000. The Company's ratio of aggregate

indebtedness to net capital was .63 to 1. The Securities and Exchange Commission permits a ratio of no greater than 15 to 1.

INSTITUTIONAL SECURITIES CORPORATION

Notes to Financial Statements

December 31, 2018

**Note 3 - Possession or Control Requirements**

The Company does not have any possession or control of customer funds or securities. There were no material inadequacies in the procedures followed in adhering to the exemptive provisions of (SEC) Rule 15c3-3(k)(2)(ii) by promptly transmitting all customer funds and securities to the clearing broker who carries the customer accounts.

**Note 4 - Related Party Transactions**

The Company and various entities are under common control and the existence of that control creates operating results and financial position significantly different than if the companies were autonomous.

The Parent has agreed to furnish management services, office space, and various general and administrative expenses to the Company. Amounts incurred under this agreement for the year ended December 31, 2018 totaled \$1,118,000 and are reflected in commission and clearance and other expenses.

In addition, The Company made payments to an affiliated entity, Investment Sales Corp., for the year ended December 31, 2018 totaling \$506,882. These payments comprised of fees that were paid to the broker dealer for plan administration activities carried out by the affiliated entity and for life insurance policies sold by reps in the capacity as an insurance agent by the affiliated entity, Investment Sales Corp. The Company also made payments to an affiliated entity, ISC Advisors, Inc., for the year ended December 31, 2018 totaling \$83,968. These payments comprised advisory fees that were received into the broker dealer in error and also E&O insurance premiums withheld from commissions. The premiums for the corporate E&O policy are paid by the affiliate, ISC Advisors, Inc. These payments are reflected in commission and clearance and other expenses.

**Note 5 - Concentration Risk**

At various times throughout the year, the Company had cash balances in excess of federally insured limits.

**Note 6 - Fair Value Measurements**

In determining fair value, the Company uses various methods including market, income, and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

**INSTITUTIONAL SECURITIES CORPORATION**  
**Notes to Financial Statements**  
**December 31, 2018**

**Note 6 - Fair Value Measurements—continued**

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the year ended December 31, 2018, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of securities owned is deemed to be Level 1 investments. There were no transfers into or out of the Level 1, 2, or 3 categories in the fair value hierarchy for the year ended December 31, 2018.

**Note 7 - Commitment and Contingencies**

Included in the Company's clearing agreement with its clearing broker-dealer, is an indemnification clause. This clause relates to instances where the Company's customers fail to settle security transactions. In the event this occurs, the Company will indemnify the clearing broker-dealer to the extent of the net loss on the unsettled trade. At December 31, 2018, management of the Company had not been notified by the clearing broker-dealer, nor were they otherwise aware, of any potential losses relating to this indemnification. Also included in the Company's agreement with its clearing broker-dealer is a clause in which the Company represents that it shall maintain at all times a minimum of \$250,000 in regulatory net capital. The clause requires the Company to do certain things and cease introducing any business in alternative investment products through its clearing firm in the event the Company's capital falls below \$250,000.

**Note 8 - Revenue from Contracts with Customers**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers: Topic 606, to supersede nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States ("GAAP"). We adopted the provisions of this guidance on January 1, 2018 using the modified retrospective approach. The adoption did not have a material impact on the timing or amounts of our revenue recognition but impacted the disclosures within the notes to the financial statements.

INSTITUTIONAL SECURITIES CORPORATION  
Notes to Financial Statements  
December 31, 2018

Note 8 - Revenue from Contracts with Customers-continued

12b1 Fees/Distribution Fees, Mutual Funds, Insurance and Annuity Products

The Company earns revenue for selling mutual funds, fixed and variable annuities and insurance products. The performance obligation is satisfied at the time of each individual sale. A portion of the revenue is based on a fixed rate applied, as a percentage, to amounts invested at the time of sale. The remaining revenue is recognized over the time the client owns the investment or holds the contract and is generally earned based on a fixed rate applied, as a percentage, to the net asset value of the fund, or the value of the insurance policy or annuity contract. The future anticipated revenue is not recognized at the time of sale because it is variably constrained due to factors outside the Company's control, including market volatility and client behavior (such as how long clients hold their mutual fund investment, insurance policy, or annuity contract). The Revenue will not be recognized until it is probable that a significant reversal will not occur.

Commission Revenue

Commission revenue represents sales commissions generated by registered representatives for their clients' purchases and sales of securities on exchanges and over-the-counter, as well as purchases of other investment products. The Company views the selling, distribution and marketing, or any combination thereof, of investment products to such clients as a single performance obligation to the product sponsors and clearing firm.

The Company is the principal for commission revenue, as it is responsible for the execution of the clients' purchases and sales, and maintains relationships with the product sponsors and clearing firm. Registered Representatives assist the Company in performing its obligations. Accordingly, total commission revenues are reported on a gross basis.

Supplementary Information  
Pursuant to Rule 17a-5 of the  
Securities and Exchange Act of 1934  
For the Year Ended  
December 31, 2018

## Schedule I

INSTITUTIONAL SECURITIES CORPORATION  
Computation of Net Capital Under Rule 15c3-1  
of the Securities and Exchange Commission  
As of December 31, 2018

### COMPUTATION OF NET CAPITAL

Total stockholder's equity qualified for net capital		\$ 647,983
Add:		
Other deductions or allowable credits		<u>-0-</u>
Total capital and allowable subordinated liabilities		647,983
Deductions and/or charges		
Non-allowable assets:		
Concession receivable in excess of the payable	\$ 10,008	
Other receivables	42,419	
Prepaid expenses and advances	38,463	
Excess blanket bond deduction	<u>5,000</u>	<u>95,890</u>
Net capital before haircuts on securities positions		552,093
Haircuts on securities (computed, where applicable, pursuant to Rule 15c3-1(f))		
Other securities	<u>7,700</u>	<u>7,700</u>
Net capital		<u>\$ 544,393</u>

### AGGREGATE INDEBTEDNESS

Items included in statement of financial condition		
Accounts payable and accrued expenses		\$ 23,192
Commissions payable		295,189
Income taxes payable		<u>24,707</u>
Total aggregate indebtedness		<u>\$ 343,088</u>

**Schedule I (continued)**

**INSTITUTIONAL SECURITIES CORPORATION**  
**Computation of Net Capital Under Rule 15c3-1**  
**of the Securities and Exchange Commission**  
**As of December 31, 2018**

**COMPUTATION OF BASIC NET CAPITAL REQUIREMENT**

Minimum net capital required (6 2/3% of total aggregate indebtedness)	<u>\$ 22,873</u>
Minimum dollar net capital requirement of reporting broker or dealer	<u>\$ 100,000</u>
Net capital requirement (greater of above two minimum requirement amounts)	<u>\$ 100,000</u>
Net capital in excess of required minimum	<u>\$ 444,393</u>
Excess net capital at 1000%	<u>\$ 510,084</u>
Ratio: Aggregate indebtedness to net capital	<u>.63 to 1</u>

**RECONCILIATION WITH COMPANY'S COMPUTATION**

There were no material differences in the computation of net capital under Rule 15c3-1 from the Company's computation in its unaudited Focus IIA Report.

REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON MANAGEMENT'S EXEMPTION REPORT

Required By SEC Rule 17a-5

Year Ended December 31, 2018





MOSSADAMS

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors  
Institutional Securities Corporation

We have reviewed management's statements, included in the accompanying Institutional Securities Corporation's Exemption Report, in which (1) Institutional Securities Corporation identified the following provisions of 17 C.F.R. §15c3-3(k) under which Institutional Securities Corporation claimed an exemption from 17 C.F.R. §240.15c3-3: k(2)(ii) (the exemption provisions) and (2) Institutional Securities Corporation stated that Institutional Securities Corporation met the identified exemption provisions throughout the most recent fiscal year without exception. Institutional Securities Corporation's management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about Institutional Securities Corporation's compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph k (2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

*Moss Adams LLP*

Dallas, Texas  
February 25, 2019



CORPORATE  
RETIREMENT  
PLAN SERVICES



NON-PROFIT  
EMPLOYER  
SERVICES



BROKER  
SUPPORT  
SERVICES



WEALTH  
MANAGEMENT  
SERVICES

### Institutional Securities Corp's Exemption Report

Institutional Securities Corp (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). This Exemption Report was prepared as required by 17 C.F.R. §240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:

- (1) The Company claimed an exemption from 17 C.F.R. §240.15c3-3 under the following provisions of 17 C.F.R. §240.15c3-3 (k) (2)(ii).
- (2) The Company met the identified exemption provisions in 17 C.F.R. §240.15c3-3(k) throughout the most recent fiscal year without exception.

\_\_\_\_\_  
Institutional Securities Corp

I, Scott A. Hayes, swear (or affirm) that, to my best knowledge and belief, this exemption report is true and correct.

By: \_\_\_\_\_

Title: President

February 4, 2019

3500 Oak Lawn Avenue, Suite 400, Dallas, Texas 75219 | 800-888-3520 | ISCGROUP.COM

Securities offered through Institutional Securities Corp, Member FINRA/SIPC.  
Advisory services offered through ISC Advisors, Inc.